HARMONY AUTO
和諧汽車

China Harmony New Energy Auto Holding Limited
中國和諧新能源汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03836)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2015

HIGHLIGHTS:

For the year ended December 31, 2015:

- The Group recorded new vehicle sales volume of 23,183 units of luxury and ultra-luxury automobiles, representing an increase of 14.2% as compared with 2014.
- Revenue of the Group amounted to approximately RMB10,620.2 million, representing an increase of 4.2% over 2014, of which revenue from new passenger vehicle sales was RMB8,934.9 million, maintained similar level with 2014, revenue from after-sales services increased by 34.9% to RMB1,685.3 million.
- Gross profit of the Group amounted to approximately RMB1,121.7 million, representing an increase of 3.0% over 2014, among which, gross profit of after-sales services amounted to approximately RMB759.7 million, accounting for 67.7% of the gross profit of the Group, and representing an increase of 15.2 percentage points over 2014.
- Gross profit margin of the Group was 10.6%, among which, gross profit margin of new vehicle sales was 4.1% and gross profit margin of after-sales services was 45.1%.

- The commission income (mainly from insurance agency and vehicle financing agency services) of the Group was approximately RMB276.0 million, representing an increase of 20.8% as compared with 2014.

- Earnings before interest, taxes, depreciation, and amortization (EBITDA) was approximately RMB1,069.4 million, representing an increase of 2.9% as compared with 2014.

- Net profit attributable to shareholders of the Company amounted to approximately RMB563.4 million, representing an increase of 3.5% over 2014.

- Net cash from operating activities of the Group amounted to approximately RMB1,590.8 million, representing an increase of 338.8% over 2014.

- Basic and diluted earnings per share were RMB0.39 and RMB0.39, respectively.

- The Board proposed a final dividend of HK12 cents per ordinary share, representing an increase of 20% as compared with 2014.

ANNUAL RESULTS

The board of directors (the "**Board**") of China Harmony New Energy Auto Holding Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended December 31, 2015. The audited consolidated results have been reviewed by the audit committee of the Company.

Consolidated Statement of Profit or Loss

		Year ended December 31,	
		2015	2014
	Notes	***RMB'000***	*RMB'000*
REVENUE	*4(a)*	**10,620,244**	10,195,890
Cost of sales and services	*5(b)*	**(9,498,495)**	(9,106,560)
Gross profit		**1,121,749**	1,089,330
Other income and gains, net	*4(b)*	**524,781**	474,072
Selling and distribution expenses		**(592,221)**	(515,668)
Administrative expenses		**(134,719)**	(124,097)
Profit from operations		**919,590**	923,637
Finance costs	*6*	**(157,056)**	(202,199)
Share of profits and losses of			
Joint ventures		**(587)**	–
An associate		**1,308**	4,916
Profit before tax	*5*	**763,255**	726,354
Income tax expense	*7*	**(194,566)**	(180,650)
Profit for the year		**568,689**	545,704
Attributable to:			
Owners of the parent		**563,393**	544,365
Non-controlling interests		**5,296**	1,339
		568,689	545,704
Earnings per share attributable to ordinary equity holders of the parent	*9*		
Basic (RMB)		**0.39**	0.51
Diluted (RMB)		**0.39**	0.50

Consolidated Statement of Comprehensive Income

	Year ended December 31,	
	2015	2014
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**568,689**	545,704
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**71,419**	(575)
Other comprehensive income for the year, net of tax	**71,419**	(575)
Total comprehensive income for the year, net of tax	**640,108**	545,129
Attributable to:		
Owners of the parent	**634,812**	543,790
Non-controlling interests	**5,296**	1,339
	640,108	545,129

Consolidated Statement of Financial Position

	Notes	As at December 31, 2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,842,151**	2,600,526
Land use rights		**12,297**	12,697
Intangible assets		**5,923**	5,376
Prepayments		**205,365**	81,374
Investments in joint ventures		**399,413**	–
Investment in an associate		**7,872**	11,439
Deferred tax assets		**52,030**	26,608
Total non-current assets		**3,525,051**	2,738,020
CURRENT ASSETS			
Inventories	*10*	**1,273,497**	1,486,540
Trade receivables	*11*	**86,369**	73,894
Prepayments, deposits and other receivables		**1,951,726**	1,425,045
Amounts due from related parties		**–**	294
Structured deposits		**305,000**	869,500
Pledged bank deposits		**384,298**	550,978
Cash in transit		**39,435**	33,226
Cash and cash equivalents		**3,489,888**	1,041,080
Total current assets		**7,530,213**	5,480,557
CURRENT LIABILITIES			
Bank loans and other borrowings		**2,395,092**	3,028,764
Trade and bills payables	*12*	**864,094**	877,921
Other payables and accruals		**1,183,211**	955,764
Income tax payable		**683,244**	491,930
Total current liabilities		**5,125,641**	5,354,379
NET CURRENT ASSETS		**2,404,572**	126,178
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,929,623**	2,864,198
NON-CURRENT LIABILITIES			
Bank loans and other borrowings		**21,360**	102,308
Deferred tax liabilities		**21,196**	16,127
Total non-current liabilities		**42,556**	118,435
NET ASSETS		**5,887,067**	2,745,763
EQUITY			
Equity attributable to owners of the parent			
Share capital		**12,498**	8,633
Reserves		**5,843,263**	2,717,520
		5,855,761	2,726,153
Non-controlling interests		**31,306**	19,610
Total equity		**5,887,067**	2,745,763

1. GENERAL INFORMATION

China Harmony New Energy Auto Holding Limited (formerly known as "China Harmony Auto Holding Limited") (the "**Company**") was incorporated on September 24, 2012 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The shares of Company were listed (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on June 13, 2013.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "**Group**") were principally engaged in the sale and service of motor vehicles in Mainland China.

In the opinion of the directors of the Company (the "**Directors**"), the ultimate holding company of the Company is Eagle Seeker Company Limited, which is incorporated in the British Virgin Islands ("**BVI**").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's financial statements.

Amendments to HKAS 19 — *Defined Benefit Plans: Employee Contributions*
Annual Improvements to HKFRSs 2010-2012 Cycle
Annual Improvements to HKFRSs 2011-2013 Cycle

The adoption of these revised HKFRSs has had no significant financial effect on these financial statements.

In addition, the Company has adopted the amendments to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

3. OPERATING SEGMENT INFORMATION

The Group's principal business is the sale and service of motor vehicles. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the sale of motor vehicles and the provision of related services.

No operating segments have been aggregated to form the above reportable operating segment.

Information about geographical area

Since all of the Group's revenue was generated from the sale and service of motor vehicles in Mainland China and over 90% of the Group's identifiable non-current assets and liabilities were located in Mainland China, no geographical segment information is presented in accordance with HKFRS 8 *Operating Segments*.

Information about major customers

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year, no major customer information is presented in accordance with HKFRS 8 *Operating Segments*.

4. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue

Revenue represents the net invoiced value of goods sold and the value of services rendered after allowances for returns, trade discounts, where applicable.

	2015	2014
	RMB'000	*RMB'000*
Revenue from the sale of motor vehicles	**8,934,918**	8,946,621
Others	**1,685,326**	1,249,269
	10,620,244	10,195,890

(b) Other income and gains, net:

	2015	2014
	RMB'000	*RMB'000*
Commission income	**275,992**	228,471
Advertisement support received from motor vehicle manufacturers	**15,093**	11,364
Bank interest income	**65,284**	62,247
Interest income from loans to third parties	**102,741**	70,541
Government grants(i)	**1,043**	52,353
Gain on disposal of a subsidiary	**18,592**	–
Penalty income from cancellation of a potential acquisition contract	**–**	15,835
Others	**46,036**	33,261
Total	**524,781**	474,072

(i) Various government grants have been received for the encouragement of the Company's Listing in 2014. There are no unfulfilled conditions or contingencies relating to these grants.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

(a) Employee benefit expense (including directors' and chief executive's remuneration):

	2015	2014
	RMB'000	*RMB'000*
Wages and salaries	**232,105**	208,282
Equity-settled share award expense	**4,150**	28,765
Equity-settled share option expense	**10,502**	–
Other welfare	**42,082**	32,792
	288,839	269,839

(b) Cost of sales and services:

	2015	2014
	RMB'000	*RMB'000*
Cost of sales of motor vehicles *	**8,572,903**	8,429,209
Others **	**925,592**	677,351
	9,498,495	9,106,560

* During the year, the impairment of inventory of RMB5,666,000 is included in "Cost of sales" in the consolidated statement of profit or loss.

** There were employee benefit expenses of RMB67,243,000 (2014: RMB53,081,000) included in the cost of sales and services.

(c) Other items:

	2015	2014
	RMB'000	*RMB'000*
Depreciation of items of property, plant and equipment	**147,172**	109,392
Amortisation of land use rights	**400**	400
Amortisation of intangible assets	**1,529**	775
Auditors' remuneration	**4,000**	3,988
Advertisement and business promotion expenses	**65,501**	71,822
Bank charges	**11,977**	13,045
Lease expenses	**83,397**	70,040
Logistics and petroleum expenses	**25,083**	26,534
Office expenses	**9,507**	11,207
Net loss on disposal of items of property, plant and equipment	**18,535**	8,783
Foreign exchange differences, net	**(1,358)**	(14)

6. FINANCE COSTS

	2015	2014
	RMB'000	*RMB'000*
Interest expense on bank borrowings	**152,648**	195,881
Interest expense on other borrowings	**26,102**	23,857
Less: Interest capitalised	**(21,694)**	(17,539)
	157,056	202,199

7. INCOME TAX

Income tax in the consolidated statement of profit or loss represents:

	2015	2014
	RMB'000	*RMB'000*
Current Mainland China corporate income tax	**216,119**	186,067
Deferred tax	**(21,553)**	(5,417)
	194,566	180,650

Pursuant to Section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations.

The subsidiaries incorporated in the BVI are not subject to income tax as these subsidiaries do not have a place of business (other than a registered office only) or carry on any business in the BVI.

The subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. There are no assessable profits arising in Hong Kong during the year (2014: RMB9,705,000).

According to the Corporate Income Tax Law of the People's Republic of China, the income tax rate for Mainland China subsidiaries is 25%.

8. DIVIDENDS

	2015	2014
	RMB'000	*RMB'000*
Proposed final – HK12 cents (2014: HK10 cents) per ordinary share	**158,074**	102,405

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The calculation of the proposed final dividend for the year ended December 31, 2015 is based on the proposed final dividend per ordinary share and the total number of ordinary shares as at this announcement date.

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year. The number of shares for the current year has been arrived at after eliminating the restricted shares of the Company held under the restricted share unit scheme.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares under the restricted share unit scheme and share option scheme.

The calculations of the basic and diluted earnings per share are based on:

Earnings

	2015 *RMB'000*	2014 *RMB'000*
Profit for the year attributable to ordinary equity holders of the parent	**563,393**	544,365

Shares

	2015	2014
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,426,739,395**	1,075,126,000
Effect of dilution – weighted average number of ordinary shares:		
– Restricted shares	**13,579,715**	11,736,000
	1,440,319,110	1,086,862,000

Outstanding share options of the Company during the year ended December 31, 2015 have not been included in the computation of diluted earnings per share as they did not have a dilutive effect on the Company's earnings per share for the year ended December 31, 2015.

10. INVENTORIES

	2015 *RMB'000*	2014 *RMB'000*
Motor vehicles	**1,134,079**	1,355,292
Spare parts and accessories	**139,418**	131,248
	1,273,497	1,486,540

At December 31, 2015, certain of the Group's inventories with an aggregate carrying amount of approximately RMB367,279,000 (2014: RMB560,245,000) were pledged as security for the Group's bank loans and other borrowings.

At December 31, 2015, certain of the Group's inventories with an aggregate carrying amount of approximately RMB293,646,000 (2014: RMB296,964,000) were pledged as security for the Group's bills payable.

11. TRADE RECEIVABLES

	2015 *RMB'000*	2014 *RMB'000*
Trade receivables	**86,369**	73,894

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over the trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at each reporting date (based on the invoice date) is as follows:

	2015	2014
	RMB'000	*RMB'000*
Within 3 months	**78,673**	66,364
More than 3 months but less than 1 year	**7,696**	7,530
	86,369	73,894

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	2015	2014
	RMB'000	*RMB'000*
Neither past due nor impaired	**86,369**	73,894

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

12. TRADE AND BILLS PAYABLES

	2015	2014
	RMB'000	*RMB'000*
Trade payables	**157,531**	130,325
Bills payable	**706,563**	747,596
Trade and bills payables	**864,094**	877,921

An aged analysis of the trade and bills payables as at each reporting date, based on the invoice date, is as follows:

	2015	2014
	RMB'000	*RMB'000*
Within 3 months	**769,762**	807,222
3 to 6 months	**91,549**	58,071
6 to 12 months	**789**	11,831
Over 12 months	**1,994**	797
	864,094	877,921

The trade and bills payables are non-interest-bearing.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

According to China Association of Automobile Manufacturers, sales volume of passenger vehicles reached 21.15 million in China in 2015, representing a year-on-year growth of 7.3%. In the second half of 2015, vehicle sales picked up rapidly with the recovery in consumer confidence and the government's roll-out of automobile consumption stimulatory policies.

The sector of new energy vehicles in China recorded explosive growth due to various positive factors, including favorable government policies, rising environmental awareness of consumers and increasingly mature development of new energy vehicles. According to China Association of Automobile Manufacturers, sales of new energy vehicles in China reached 331,092 units in 2015, increasing by 3.4 times as compared with the previous year, among which, sales volume of pure electric vehicles reached 247,500 units, increasing by 4.5 times year-on-year.

In addition, figures from the National Bureau of Statistics of the PRC showed that vehicle ownership for civilian use exceeded 170 million units by the end of 2015. The enormous level of vehicle ownership laid the foundation for the rapid development of the after-sales services market, among which branded and chained independent after-sales services achieved particularly fast growth due to its distinctive advantages comparing with traditional dealership outlets and individual repair stores. Currently, the Chinese automobile after-sales services market has reached RMB700 billion in size but its penetration rate of independent after-sales services is merely 23%, hence there is still much room for development when compared with the 80% penetration rate in the U.S..

BUSINESS OVERVIEW

In 2015, the Group utilized the opportunities offered by the transformation of China's vehicle industry and achieved fruitful results in each area of new vehicle sales, after-sales services and new energy vehicles.

Proactive Transformation of Network Layout

Enhanced Market Position of Dealership Outlets

As of the date of this announcement, the Group owned a total of 48 dealership outlets, covering 21 cities across the country, distributed 11 luxury and ultra-luxury brands, of which, 7 were luxury brands such as BMW, MINI, Lexus, Jaguar, Land Rover, Volvo and Zinoro; and 4 were ultra-luxury brands such as Rolls-Royce, Aston Martin, Ferrari and Maserati.

Accelerated Growth of Independent After-sales Services Outlets

As of the date of this announcement, the Group opened a total of 158 independent after-sales services outlets, of which, 40 were centre outlets and 118 were community stores, covering 44 cities across the country. Operating under the brands "Harmony Auto Maintenance (和諧汽修)" and "Harmony Fast Maintenance (和諧快修)", the Group's independent after-sales services outlets offer after-sales services for mainstream luxury and ultra-luxury automobile models, which are not only limited to those 11 brands under the Group's dealership. The Group's strategy on the layout of independent after-sales services outlets is to develop community outlets covering the neighbourhood of each centre outlet acting as the core in order to achieve full coverage of business categories and target markets as well as to move down the distribution chain and attract more customer flow to the centre stores capitalizing on community outlets.

In addition, the Group is also one of the major after-sales service partners of Tesla in China, and operates eight Tesla special maintenance service centers in Beijing, Shanghai, Guangzhou, Hangzhou, Xi'an, Wuhan, Jinan and Zhengzhou.

Recovery of rapid growth of new vehicles sales

For the year ended December 31, 2015, the Group recorded new vehicle sales volume of 23,183 units of luxury and utlra-luxury automobiles, increased by 2,875 units or 14.2% as compared with 20,308 units in 2014. Among which, in the second half of 2015, new vehicle sales volume totaled 12,504 units, representing an increase of 17.1% when compared with the 10,679 units in the first half of 2015.

A breakdown of the new vehicle sales volume of the Group for the year ended December 31, 2015 is as follows:

- Sales volume of BMW brand reached 19,862 units (inclusive of MINI brand), up 12.0% over 2014; sales volume of other brands were 3,321 units, representing a growth of 29.2% as compared to 2014.

- Sales volume of luxury vehicles were 22,127 units, up 13.8% when comparing with 2014 while sales volume of ultra-luxury vehicles were 1,056 units, representing a growth of 21.9% over 2014.

- Among luxury vehicles, sales volume of domestic manufactured models were 13,185 units, representing a growth of 18.8% over 2014 while sales of imported models reached 8,942 units, increasing by 7.2% as compared to 2014.

Rapid growth of after-sales services

In 2015, the revenues from after-sales services in dealership outlets and independent after-sales services of the Group recorded substantial growth, mainly attributable to the increasing maturity of dealership outlets as well as the increasing number of stores in operation and maturity of the independent after-sales services outlets.

As at the date of this announcement, the number of independent after-sales services outlets opened by the Group reached 158. Independent after-sales services outlets serve as high-end maintenance workshops specializing in after-sales services, premium accessories installation and car insurance agency for luxury and ultra-luxury vehicles. The rapid entry of the Group's independent after-sales services outlets into the enormous luxury and ultra-luxury vehicle markets has generated significant growth in revenue.

Steady advance of new energy vehicles projects

In March 2015, the Company entered into a strategic cooperation framework agreement in respect of "internet + intelligent electric vehicle" with Foxconn Technology Group ("**Foxconn**") and 深圳騰訊產業投資基金有限公司 (Shenzhen Tencent Industrial Investment Fund Co., Ltd.#) ("**Tencent**") to actively explore innovative cooperation in the area of internet and intelligent electric car. So far, the above strategic cooperation progressed well.

Incorporation of the joint venture, Harmony Futeng by Three Parties

In July 2015, the above three parties (through various affiliates or related parties) duly incorporated 河南和諧富騰互聯網加智能電動汽車企業管理有限公司 (Henan Harmony Futeng Internet and Intelligent Electric Vehicle Corporate Management Company Limited#) and 河南和諧富騰互聯網加智能電動汽車新能源合夥企業(有限合夥) (Henan Harmony Futeng Internet and Intelligent Electric Vehicle New Energy Partnership (Limited Partnership)#) ("**Harmony Futeng**"). It is intended that Harmony Futeng, with an initial scale of RMB1.0 billion, of which Foxconn, Tencent and the Company would make capital contribution of RMB300 million, RMB300 million and RMB400 million, respectively, will mainly make the investments in new energy and/or intelligent electric vehicle projects and related internet projects.

Acquisition of GFMC and Establishment of Aiche Company

In May and June 2015, 河南和諧汽車貿易有限公司 (Henan Harmony Automobile Trading Co., Ltd.#) ("**Henan Harmony**"), a wholly-owned subsidiary of the Group, acquired 64.64% and 22.93% equity interests in 浙江緣野汽車有限公司 (Green Field Motor Co., Ltd.#) ("**GFMC**") successively, thus holding 87.57% equity interests in GFMC. GFMC was established in June 2010 and located in Shangyu Industrial Zone in Hangzhou Bay, Shaoxing City, Zhejiang Province, occupying an area of 450 mu. GFMC possesses a large-scale whole electric vehicle production base encompassing four major production workshops of stamping, welding, coating and assembling.

In December 2015, the Group entered into an agreement with Harmony Futeng in respect of making joint capital contributions to establish 浙江愛車互聯網智能電動車有限公司 (Zhejiang Aiche Internet and Intelligent Electric Vehicle Company Limited#) ("**Aiche Company**") with a registered capital of RMB550 million, which will be owned as to 28% by the Group and 55% by Harmony Futeng, and as to 17% by other investors to be introduced in the future. Aiche Company acquired 87.57% equity interests in Green Field Motor from Henan Harmony to become its direct controlling shareholder. Aiche Company aims to create a new economic electric vehicle platform and brand based on the R&D and production capabilities of GFMC.

Steady Progress of High-end Internet and Intelligent Electric Vehicles Project

Together with strategic partners, the Group intends to develop high-end internet and intelligent electric vehicles, to offer customers a smart, pleasant, and eco-friendly driving and mobility experience and currently has already formed a world-class management team.

Strategic Cooperation with Alibaba Automobile

On 2 November 2015, the Group entered into a strategic cooperation framework agreement ("**Cooperation Framework Agreement**") with the Alibaba Automobile business unit ("**Alibaba Automobile**") of 浙江天猫技術有限公司 (Zhejiang Tmall.com Technology Co., Ltd.[#]), an affiliate of Alibaba Group Holding Ltd., to carry out strategic cooperation in respect of "Internet + Automobile Sales and Services". Major areas of the cooperation include jointly building up "Harmony-Alibaba Automobile Car Port" network, automobile e-commerce, pre-owned car business and internet auto finance. The Group's strategic cooperation with Alibaba Automobile goes well and has achieved prominent achievements.

Future Outlook and Development Strategies

In the opinion of the Group, the penetration rate of automobiles in China is still lagging behind developed countries and car ownership is far from saturation, hence a large room still exists for new automobile sales. With household income growth, consumption upgrading and supportive government policies, the luxury and ultra-luxury automobile markets are set to resume normal growth.

As at the end of 2015, vehicle ownership for civilian use in China exceeded 170 million. According to estimates made by research institutions in the industry, automobiles aged three years and above, and six years and above currently account for over 60% and 40% of total number of automobiles in China, respectively. The increase in car ownership and the growth in average automobile age would further foster the booming growth of after-market services for automobiles, and its market scale is likely to reach RMB1 trillion in the next few years. As compared with developed countries, the automobile after-market in China is extensively fragmented at present. Along with the increasing demand for quality services and safety among consumers, the market would become more concentrated and industry leaders would be highly benefited.

Though ranking first in automobile market scale in the world, China still has a low new energy vehicles penetration level. Under encouragement and support from governmental policies, the increase in awareness on environmental protection among consumers as well as growth of maturity level of industry development, it is anticipated that new energy vehicles industry will continue its rapid development.

The Company will continue to execute the following development strategies with an aim to further boost up its profitability and create greater value for its shareholders:

- steadily developing 4S outlets business with focus on enhancing its after-sales service value;

- rapidly developing independent after-sales service businesses, quickly developing community stores on top of anchor stores to form a nationwide network and further enhancing its leading position in the country;

- proactively developing new energy automobile business while accelerating talents recruitment, research and development and products launching;

- fully utilizing internet platform, facilitating after-sales services and businesses of second-hand automobiles and parallel imports of automobiles, and realizing online and offline interaction and complementation; and

- proactively enhancing the penetration of automobile finance, increasing commission income and expanding financial leasing business.

FINANCIAL OVERVIEW

Revenue

Revenue of the Group was RMB10,620.2 million for 2015, representing an increase of 4.2% as compared with RMB10,195.9 million in 2014. During the period, the Group maintained similar level of revenue from sales of new passenger vehicles comparing with 2014 and recorded a substantial year-on-year increase of 34.9% in the after-sales services revenue.

Revenue from sales of new passenger vehicles slightly decreased by 0.1% from RMB8,946.6 million in 2014 to RMB8,934.9 million in 2015, accounting for 84.1% of the revenue (87.7% in 2014). The slight drop in sales revenue of new passenger vehicles was mainly due to the increasing contribution to sales volume by locally manufactured models of international luxury brands and the unit prices of locally manufactured models are generally lower than imported car models. Moreover, as the growth rate of the sales of passenger vehicles market in China slowed down, the Group adopted various promotion policies to offer benefits to the consumers. Nevertheless, the Group‘s revenue from sales of new passenger vehicles for the second half of 2015 was RMB4,718.6 million, representing an increase of 11.9% from RMB4,216.3 million in the first half of 2015, mainly attributed to the growth in sales volume of new vehicles.

Revenue from after-sales services increased 34.9% to RMB1,685.3 million in 2015 from RMB1,249.3 million in 2014, accounting for 15.9% of the total revenue in 2015 as compared with 12.3% in 2014. Among which, after-sales services revenue derived from our dealership outlets increased to RMB1,191.4 million in 2015, representing an increase of 23.3% as compared with RMB966.4 million in 2014. Such increase was mainly attributable to the increasing maturity of our stores newly opened in 2012-2014 and increasing demand for after-sales services from an expanded client base. Our independent after-sales services outlets contributed revenue of RMB493.9 million in 2015, an increase of 74.6% from RMB282.9 million in 2014. The proportion of after-sales services revenue attributable to independent after-sales services outlets also increased to 29.3% in 2015 from 22.6% in 2014. Looking into the future, our fast-growing independent after-sales services outlets, which are in operation or will be in operation, will make greater contribution to the growth of the Group’s after-sales services and become an important profit growth driver of the Group.

Cost of sales and services provided

Our cost of sales and services increased by 4.3% from RMB9,106.6 million in 2014 to RMB9,498.5 million in 2015. Cost of sales attributable to sales of new passenger vehicles increased by 1.7% from RMB8,429.2 million in 2014 to RMB8,572.9 million in 2015. Cost of sales attributable to after-sales services increased by 36.6% from RMB677.4 million in 2014 to RMB925.6 million in 2015.

Gross profit and gross profit margin

Our gross profit remained stable at RMB1,121.7 million in 2015, representing a growth of 3.0% as compared to RMB1,089.3 million in 2014. Our gross profit margin was 10.6% in 2015, maintaining a level similar as compared with 10.7% in 2014.

Gross profit from sales of new passenger vehicles decreased by 30.0% to RMB362.0 million in 2015 from RMB517.4 million in 2014. In 2015, sales of new vehicles reported gross profit margin of 4.1%, representing decreases of 1.7 percentage points as compared against that for 2014, respectively. The drop in gross profit margin was mainly due to the slowed growth rate in the market of passenger vehicles since the third quarter of 2014. To speed up the inventory turnover and lower the capital pressure from the high level of inventory, the Group adopted various promotion policies to offer benefits to the consumers, thus pushing the gross profit margin from sales of new vehicles to a relatively low level.

Gross profit from our after-sales services surged by 32.8% from RMB571.9 million in 2014 to RMB759.7 million in 2015, which contributed to total gross profit by 67.7% in 2015 as compared with 52.5% in 2014. It was mainly attributable to the growing client base for our maturing dealership outlets and the rapid development in independent after-sales service, gross profit derived from after-sales services provided by our dealership outlets increased by 23.4% from RMB443.6 million to RMB547.6 million; while our independent after-sales services outlets contributed to the Group a gross profit from after-sales services of RMB212.1 million, with a growth of 65.3% from RMB128.3 million in last year. Due to the rapid development and increasing maturity of our independent after-sales services outlets, the gross profit contributed by these outlets for 2015 accounted for 27.9% of the total gross profit derived from our aftersales services, compared to 22.4% in 2014. In 2015, gross profit margin of our after-sales service was 45.1%, representing a decrease of 0.7 percentage points comparing with 45.8% of gross profit margin from our after-sales services in 2014, of which the gross profit margin for the after-sales services of dealership outlets was 46.0%, remained flat over that of 2014; while the gross profit margin for independent after-sales services outlets was 42.9%, down by 2.5 percentage points from 2014 which was mainly due to newly opened stores, for which it would take some time to have the gross margin as matured stores have.

Selling expenses

In 2015, selling expenses amounted to RMB592.2 million, increasing by 14.8% from RMB515.7 million in 2014. It was mainly attributed to the increase of selling expenses of newly-built independent after-sales services outlets. In 2015, selling expenses of dealership outlets was RMB443.4 million, representing an increase of 5.2% from RMB421.4 million in 2014.

Administrative expenses

As compared to RMB124.1 million in 2014, administrative expenses increased by 8.5% to RMB134.7 million in 2015. It was mainly attributed to the increase of administrative expenses of the newly opened independent after-sales services outlets. In 2015, administrative expenses of dealership outlets was RMB62.7 million, representing a decrease of 16.0% from RMB74.6 million in 2014.

Other income and gains, net

Other income and gains, net increased by 10.7% from RMB474.1 million in 2014 to RMB524.8 million in 2015, and the increase was primarily due to:

- the commission income (mainly from insurance agency and vehicle financing agency services) for 2015 was RMB276.0 million, representing an increase of 20.8% from RMB228.5 million in 2014, primarily attributable to the following reasons: (i) increasing sales volume of new passenger vehicles; (ii) as compared to cash payment, more new passenger vehicles were purchased using the financing services provided by manufacturers, which led to improvement of financing coverage; and (iii) the increasing number of customers who used the insurance and extended insurance services referred by us when purchasing new passenger vehicles;

- a 5.0% increase in bank interest income from RMB62.2 million in 2014 to RMB65.3 million in 2015, primarily attributable to the increase in our bank deposit (including the proceeds from the offer of new shares in the first half of 2015);

- a 45.7% growth in interest income of entrusted loan and other third party loan from RMB70.5 million in 2014 to RMB102.7 million in 2015, primarily due to the utilization of the advantages of sufficient cash, thus making it possible for us to generate interest income higher than bank deposits with sound risk management.

Finance costs

The Group's finance costs for 2015 was RMB157.1 million, representing a decrease of RMB45.1 million or 22.3% as compared to RMB202.2 million in 2014, primarily due to the decrease of borrowing interest rates in China and that the Group repaid part of the bank loans in 2015.

Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)

The Group's EBITDA for 2015 was RMB1,069.4 million, representing a growth of RMB30.3 million or 2.9% as compared to RMB1,039.1 million in 2014.

Profit for the year attributable to shareholders of the Company

Profit for 2015 attributable to shareholders of the Company was RMB563.4 million, representing an increase of 3.5% as compared against RMB544.4 million for 2014.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

The Group's primary uses of cash are to pay for the purchases of passenger vehicles, spare parts and automobile accessories, to establish new dealership outlets and after-sales services outlets and to fund our working capital and operating expenses. The Group's liquidity needs was financed through a combination of short-term bank loans and cash flows generated from its operating activities.

As at December 31, 2015, cash and deposits of the Group totalled RMB4,218.6 million, representing a significant growth of 69.1% as compared with December 31, 2014, mainly attributable to the proceeds from issuing new shares in the amount of RMB2,651.0 million received in 2015 and mainly kept as cash deposit, and the Group reduced the level of inventory to accelerate the cash flow. As at December 31, 2015, among the Group's cash and cash equivalents, HK$2,039.3 million (equivalent to RMB1,707.6 million) was deposited overseas and in Hong Kong dollars.

For 2015 and 2014, our net cash from operating activities was RMB1,590.8 million and RMB362.5 million, respectively. For 2015 and 2014, net cash used in investing activities was RMB1,499.6 million and RMB440.9 million, respectively. Net cash generated from financing activities for 2015 and 2014 was RMB1,673.2 million and RMB125.8 million, respectively.

Taking into account the Group's existing cash and cash equivalents, anticipated cash flow from the operating activities, available bank facilities and other borrowings, the Board believes that the Group's liquidity needs can be satisfied.

Net current assets

As at December 31, 2015, the Group's had net current assets of RMB2,404.6 million, compared to net current assets of RMB126.2 million as of December 31, 2014. The growth was due to sufficient cash from issuing of new shares.

Capital expenditure

In 2015, the Group's capital expenditure (primarily used for the purchase of items of property, plant and equipment in connection with the establishment of new outlets), was RMB508.7 million, representing a decrease of 52.3% comparing with 2014 (2014: RMB1,066.9 million).

Inventory

The Group's inventories primarily consist of new passenger vehicles, spare parts and automobile accessories. Each of the Group's outlets individually manages its orders for new passenger vehicles and after-sales services products, but its headquarters implements active warning, supervision and management on inventories of all stores to ensure a reasonable inventory balance.

The Group's inventories decreased by RMB213.0 million or 14.3% from RMB1,486.5 million as of December 31, 2014 to RMB1,273.5 million as of December 31, 2015, primarily due to a decrease in the Group's inventory of new passenger vehicles by 16.3% from RMB1,355.3 million as of December 31, 2014 to RMB1,134.1 million as at December 31, 2015. As the management of the Company always pays attention on the turnover of inventory, the Group established a warning management system for inventory and introduced promotion, marketing plans and corresponding measures in accordance with market trend which benefit customers. The Group also established a unified dynamic inventory management system to consolidate the inventory resources and reduce part of the inventory.

The Group's average inventory turnover days for 2015 were 52 days, a decrease of 8 days as compared to 2014. Among which, average inventory turnover days for luxury vehicles were 46 days. Under the slowdown of growth rate in the market and rise in inventory pressure faced by each distributor, the Group was still able to maintain relatively rapid turnover of inventory.

Bank loans and other borrowings

As at December 31, 2015, the Group had bank loans and other borrowings in the aggregate amount of RMB2,416.5 million, representing a year-on-year decrease of 22.8% as compared to RMB3,131.1 million as at December 31, 2014. The table below sets forth breakdowns of our bank loans and other borrowings as of the indicated dates:

	December 31, 2015	December 31, 2014
	RMB'000	*RMB'000*
Bank loans repayable:		
Within one year or on demand	**1,798,504**	2,471,014
In the second year	**15,360**	33,138
In the third to fifth years	**6,000**	69,170
	1,819,864	2,573,322
Other borrowings repayable:		
Within one year or on demand	**596,588**	557,750
Total	**2,416,452**	3,131,072

As at December 31, 2015, the Group's net cash ratio, which is calculated by net cash (cash and deposits minus interest-bearing liability) divided by the total equity attributable to owners of the parent was 30.8%.

As at December 31, 2015, certain of the Group's bank loans and other borrowings were secured by mortgages or pledges over its assets. The Group's assets, subject to these mortgages or pledges as at December 31, 2015, consisted of (i) inventories in the amount of RMB367.3 million; (ii) property, plant and equipment in the amount of RMB31.2 million; and (iii) land use rights in the amount of RMB12.3 million. In addition, certain of the Group's bank loans and other borrowings were guaranteed by the controlling shareholder or affiliates of the controlling shareholder. As at December 31, 2015, the Group did not have bank borrowings, loans or bonds payable denominated in foreign currency.

Contingent liabilities

As at December 31, 2015, we did not have any material contingent liabilities or guarantees.

Interest rate risk and foreign exchange risk

The Group are exposed to interest rate risk resulting from fluctuations in interest rate on our debt. Certain of its borrowings have floating interest rates that are mostly linked to the benchmark rates of the People's Bank of China. Increases in interest rate could result in an increase in the Group's cost of borrowing. If this occurs, it could adversely affect the Group's finance costs, profit and the Group's financial condition. The interest rates on bank loans and overdrafts in China depend on the benchmark lending rates published by the People's Bank of China. The Group do not currently use any derivative instruments to manage its interest rate risk.

Substantially all of the Group's revenue, cost of revenue and expenses are denominated in Renminbi. The Group also use Renminbi as its reporting currency. The Group do not believe its operations are currently subject to any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge its exposure to such risk.

Employees and remuneration policies

As at December 31, 2015, the Group had a total of 4,417 employees (December 31, 2014: 3,476 employees). Relevant staff cost for 2015 was approximately RMB288.8 million (including employee share incentive of RMB14.7 million), while the staff cost was approximately RMB269.8 million for 2014 (including employee share incentive of RMB28.8 million). According to the restricted shares unit scheme adopted by the Company in May 2013 (the "**Restricted Shares Unit Scheme**") (which was amended by the Board in August 2013 as agreed upon by all participants of the Restricted Shares Unit Scheme), as at December 31, 2015, a total of 19,110,898 shares under the Restricted Shares Unit Scheme (of which, 4,598,568 restricted shares unit awards were forfeited) had been issued and granted to a number of directors, senior management personnel and employees of the Group and two of them were current directors. For the year ended December 31, 2015, the Group had vested 6,621,267 restricted shares unit awards to certain participants of the Restricted Shares Unit Scheme.

The Company operates a share option scheme (the "**Share Option Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to success of the Group's operations. Eligible participants of the Share Option Scheme include employees of the Company and its subsidiaries. The Share Option Scheme became effective on 26 June 2015, unless otherwise cancelled or amended, will remain in force for ten years from that date. As at December 31, 2015, the Company had 45,000,000 share options outstanding under the Share Option Scheme, which represented approximately 2.9% of the Company's share in issue as at that date.

For further details of the Restricted Shares Unit Scheme and Share Option Scheme, please refer to the 2015 Annual Report which will be published by the Company in due course. The Group regularly reviews its compensation policies and employee benefits with reference to market practices and individual performance.

PURCHASES, SALE AND REDEMPTION OF LISTED SECURITIES

For year ended December 31, 2015, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

FINAL DIVIDEND

The Board has proposed a final dividend of HK12 cents per ordinary share for the year ended December 31, 2015 payable to shareholders on the register of members of the Company on May 27, 2016.

Subject to approval of the proposed final dividend by the shareholders at the forthcoming annual general meeting of the Company to be held on Wednesday, May 18, 2016 (the "**2016 AGM**"), the final dividend is expected to be paid to the shareholders of the Company on or before June 14, 2016.

Details in relation to the closure of register of members of the Company for the purposes of determining members who are qualified for attendance of 2016 AGM and the proposed final dividend will be announced separately.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the reporting period, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules.

The Board will continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code for the year ended December 31, 2015.

AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with the Listing Rules and the CG Code. As at the date of this announcement, the Audit Committee consists of three members, namely Mr. Xiao Changnian, Mr. Liu Zhangmin and Mr. Xue Guoping, all of whom are independent non-executive directors of the Company. Mr. Xiao Changnian is the chairman of the Audit Committee.

The Audit Committee has reviewed the annual results for the year ended December 31, 2015.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The annual results announcement is published on the website of the Stock Exchange (http://www.hkexnews.hk) and that of the Company (http://www.hexieauto.com). The annual report will be dispatched to the shareholders and will be available on the website of the Stock Exchange and that of the Company in due course.

By Order of the Board
CHINA HARMONY NEW ENERGY AUTO HOLDING LIMITED
Feng Changge
Chairman and Executive Director

Zhengzhou, the People's Republic of China, March 31, 2016

For identification only

As at the date of this announcement, the executive directors of the Company are Mr. Feng Changge, Mr. Liu Fenglei, Mr. Yang Lei, Mr. Qian Yewen and Ms. Ma Lintao, the non-executive director of the Company is Mr. Fan Qihui, and the independent non-executive directors of the Company are Mr. Xiao Changnian, Mr. Liu Zhangmin and Mr. Xue Guoping.